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# Economic Planning: Time to Reconsider?

**Summary:** Together with the collapse of what was once called the socialist system, was also the collapse of research on any other form of economic organisation of a society. Administrative methods for running an economy, with economic planning foremost among them, were inseparably linked to the collapse of the socialist system and, in essence, were held responsible for it. Thus, although the dominant economic paradigm has once again failed to deliver in recent years, the research for other methods fell into oblivion along with the system they were attached to.

This work represents an attempt to reconsider the potential of economic planning as a means of organizing an economy at various levels, at various degrees and in various environments. I shall try to illustrate that the blame for the collapse of different socialist systems should not have fallen on the systemic deficiencies of economic planning but, instead, on the political institutions responsible for its application. In addition, I will stress that economic planning has been condemned by non-economic parameters and the application of wrong planning methods. In making this argument I hope to provide an angle through which the discussion of economic organisation can be opened to a broader scope of research.

**Key words:** Economic planning, Political economy, Comparative economic systems, Institutions.

**JEL:** P410, P500, P160, P170.

Together with the collapse of the Union of Soviet Socialist Republics, every discussion and focus on research concerning other viewpoints of economic organisation of the society also collapsed. Capitalism, the dominant paradigm then, and the sole paradigm now, was once again hailed as the superior, or at least the only realistic, way to handle every socio-economic aspect of this planet's continuance. This loss of economic organisation discussion occurred as the administrative methods for running an economy, with foremost among them being economic planning, were inseparably linked to the collapse of the various People's Republics. In essence, they were held responsible for it leaving the theories of economic planning to fall into complete oblivion. Indeed, over the last decade precious little has been published in this area, the most notable being Anne Booth (2005), Branko Horvat (2001), T.R. Kundu (2000), Arhtur W. Lewis (2003), Teresa Virgili and Cristina Xalma (2006) and Ida Widianingsih and Elizabeth Morrell (2007).

In the years that have passed since the demise of that socio-economic system, capitalism has once again failed to deliver. Now that the dust appears to have settled, and the political environment seems not to be so negatively inclined, has the time

arrived to re-evaluate some of the administrative methods for running the economy in pursuit of economic growth and sustainable development, without the inequalities we are all witnessing nowadays? In this assumption, this work represents an attempt to reconsider the potential of economic planning as a means of organising a national economy at various levels, at various degrees and at various environments. However, given that its demise has invariably been linked to the collapse of the various socialist regimes, an analysis of what happened historically is important in order to understand the reasons of such a demise.

That said, the objective of this paper is twofold. Its first point is to go beyond a defence of economic planning as such. Instead of concentrating on its technical features (incentives, flow of information, adaptability to change, etc.) and their advantages/disadvantages vis-a-vis capitalism<sup>1</sup>, I want to examine its institutional ones. In doing this, I shall try to show that the blame for the collapse of the various socialist systems will fall not on the systemic deficiencies of economic planning but, instead, on the political institutions responsible for its application<sup>2</sup>. This should not be confused with, and taken as an integral part of, planning theory in general. As I shall try to illustrate, planning is only an instrument, and one cannot blame an instrument for being misused.

The second point of this paper's objective, which is seamlessly connected to the first one, is to point out once again that, unless we understand exactly where and why the various People's Republics failed to deliver what they had promised, it will be virtually impossible to inquire into the theoretical deficiencies, or lack thereof, of economic planning. Even if we could, it would be a waste of criminal proportions to ignore such a wealth of experience. And in this department, as I shall try to show, we do not know as much as we should.

My objective is not to provide a comprehensive analysis and a timetable for the collapse of the centrally planned economies, in conjunction with the gradual failure of their institutions to stand up to the task. For, I am not in a position to provide an analysis of such a scale<sup>3</sup>. Rather, what I can offer is an angle through which the whole issue can be revisited. Since the answers do not seem to be forthcoming at this stage, let us at least take the first step at raising the appropriate questions, to which discussion and answers may follow.

## 1. Economic Planning: Beyond a Defence

I would like to start by emphasising the most important argument that can be used in defence of economic planning, namely that, per se, it did not fail. On the contrary, when viewed within the appropriate historical, social and economic context, it succeeded. Of course, I am more than aware that this statement sounds paradoxical to say the very least, and that it demands a considerable deal of further explanation. If nothing else, how could it possibly be that the dominant economic expression of a socio-economic system succeeded when the system itself did not even manage to reproduce itself?<sup>4</sup> The first

<sup>1</sup> Among many others for such an analysis, see Lorenzo Pena (1993).

<sup>2</sup> "Planning is political, and in political structures individuals or collectives may "use the system" to acquire particular advantage, leading to distortion of information", David Laibman (1992), p. 79.

<sup>3</sup> For a plausible mathematical attempt in explaining the net result of this collapse, see Wassily Kafouros (1996).

<sup>4</sup> Of course, all modes of production prior to capitalism failed to reproduce themselves after some stage in their development, but these were substituted by higher forms of socio-economic organisation. This certainly has not been the case here.

point to be noted in this framework is that any analysis which should precede the arrival to such universal conclusions, as the failure or success of an entire economic system and its dominant economic expression, has to take place within the proper analytical confines.

During the 1930s, 1940s and 1950s<sup>5</sup> people in the West were taken by storm by the economic performance of the Soviet Union and the other socialist states. Volumes upon volumes have been written trying to explain this success, and even Keynes himself was inspired by it. This was justifiable. The Soviet Union accomplished things never before, or after, witnessed in the economic history of humanity. Furthermore, it did so not only once, but three separate times; in the early Thirties, during the Second World War and in the post-war reconstruction years. All of these have been thoroughly documented by reputable scholars and do not have to be reproduced here.

The bulk of criticism economic planning has received over all these years can therefore be viewed as being ingrained, unintentionally or not, with a serious methodological flaw. It is missing the target. It is a case of first class equipment being used in the wrong operation. Economic planning in these economies failed, it is argued, but this is only half of the story. The other half, which is almost invariably missed, is that it only failed after a certain stage in its development<sup>6</sup>, and only when

- it stopped serving the objectives it was supposed to, and
- it was called upon to solve problems its successful variants were not designed for.

## 2. Economic Planning: Condemned by Non-economic Parameters

With respect to point (i), certain issues regarding the social structure of the various People's Republics need to be touched upon. At some stage in the development of the Soviet Union, and the other socialist states, certain strata of the population emerged, which did not take long to develop into what could easily be classified as a "class"<sup>7</sup>. This class eventually managed to find themselves in the position where they could segregate themselves from the rest of the society. Furthermore, and what really matters although it is a logical consequence, is that this class was able to appropriate a huge part of society's produced wealth by utilising structures which had been developed for entirely different purposes, but had not been perfected to the point of becoming immune to this kind of penetration.

Of course, the means of production were state property, and deeds of ownership and the right to bequeath were non-existent. These however, became simple legal technicalities during the last stages in the development of the former People's Republics. The issue was inevitably reduced to the distribution of the wealth created by these means of

<sup>5</sup> The golden age of the Soviet system, as Michael Ellman and Vladimir Kontorovich (1992), p. 7, put it.

<sup>6</sup> The stage which Laibman (1992) calls "systemic comprehensive".

<sup>7</sup> Classes can be considered as large groups of people differing from each other by the place they occupy in a historically determined system of social production, by the relation (in most cases fixed and formulated by law) to the means of production, by their role in the social organisation of labour, and, consequently, by the dimensions of the share of social wealth of which they dispose and the mode of acquiring it.

production and the people working with them, and to the potential this process was releasing for its appropriators. In that sense, one may perhaps talk about a form of appropriation different from capitalism and find another name for it. Such a difference however, will concern only the form of this appropriation and its chosen name, not its essence.

Furthermore, the appropriation of wealth over an extended period of time and to such a scale, presupposes that those who do it can do so with a certain degree of safety. "Tenure", and therefore virtual lack of accountability, of high and middle ranking Party officials, however, was something that appeared later in the development of socialism, when various cliques, at various stages, were trying to consolidate their position in the system. For all intents and purposes, the process which culminated in the late 1980s, but which must have started much earlier, in Eastern Europe, could perhaps be called one of "capitalist reconstruction".

In such an environment it was only natural that economic planning had stopped serving the economic and social interests of these societies long before the final collapse of the system. Workers were, in the purest Marxist sense, alienated from the objectives of the national economic plan since it was impossible for them to see their role in it. They eventually realized that they lived in a system which was imploring them to make sacrifices for the sake of some kind of equity, but which could provide neither sufficient material rewards nor a vision for a better, or even more equal, future. Societies, therefore, reacted in the most profound way, ignoring economic plans, and having as their sole concern how to do the bare minimum in order to avoid troubles with their superiors. This code of conduct gradually came to penetrate all spheres of society and all levels of command. Under these circumstances, however, it would be rather difficult to hold the population responsible for non-active participation and, according to exactly the same token, to hold economic planning as such responsible for inefficiency.

It was not socialism and, together with it, economic planning, that died with the Soviet Union in 1991. Socialism had died long before that year. The only thing that died in 1991 was a much distorted version of it. So distorted in fact, that the term socialism and its derivatives were not even applicable.

The precise nature of the sequence of events that led to the main stages in this process of "capitalist reconstruction" has not yet become known. A comprehensive analysis, or a timetable, need to be worked out. The same is true for the nature of relationships between the Soviet ruling class and its counterparts all over the world. If, however, the interest lies in what really was the cause of the decay, and eventual collapse of this system, this is where one must look. Economic planning had very little, or nothing, to do with the collapse itself.

### **3. Economic Planning: Condemned by its Misuse**

With reference to point (ii), the castigation of economic planning for not solving problems it was not supposed to, one may admit that it has drawn greater attention. Studies analysing quantities of information and their flows, lack of effective incentive schemes, etc. can be found in abundance, and at all conceivable levels of sophistication. This is exactly where however, in conjunction with what has been said above, the methodological problem, which is the main target of this paper, arises. These studies have been taken completely out of the appropriate historical, economic and social framework.

Sovietologists have gone to great lengths to demonstrate why a very specific version of economic planning, which was designed in order to solve the problems of a socialist society under conditions of virtual crises (and which it did), could not solve the problems of societies which had long ago stopped being socialist in nature. During this process, however, their metropolis had developed into a superpower, and the structures, and consequently the problems of their economies had changed radically. Economic planning in the 1930s, 1940s and 1950s was targeted exclusively towards quantity. That was the target, and the theory was conceived with this in mind. The results have been impressive. Economic planning during the 1960s, 1970s, and 1980s had to adjust to new objectives (e.g. quality), but virtually no adjustment to the theory was made. In the end, a theory conceived to solve the problems of the 1930s came to be condemned because it did not solve the problems of the 1980s, irrespectively of the fact that it was neither supposed to, nor was in a position to predict future economic climates.

Briefly put, the crucial questions which have still to be answered after all these years, have hardly been asked. Why was the system not adjusted to suit the imperatives of changing times? Why were the planned reforms of the 1960s, irrespectively of their theoretical value, never actually implemented?<sup>8</sup> Why was Mr Gorbachev compelled to recite them again, almost word for word, with such fanfare in the 27th Congress of the Communist Party of the Soviet Union a quarter of a century later and why did they once more suffer the same fate? Why was the huge body of literature on the subject, generated on both sides of the borders, not taken into consideration? Was there an inherent inability on behalf of the central planning system to be reformed? Perhaps, but where is the proof of it?<sup>9</sup>

#### **4. A Synthesis: Economic Planning has been Condemned by Non-economic Parameters and the Application of Wrong Planning Methods**

These two points, non-economic parameters and misuse, have to be viewed as being closely interrelated when one tries to examine the complete demise of economic planning. Setting aside the familiar questions about the feasibility of post-fordist economic planning<sup>10</sup>, one can argue that the last developments in the history of these countries ought to be seen in functionalist terms. Economic planning was not adjusted to the imperatives of changing times (point ii), because those who were supposed to and could do it, had developed vested interests not to do it (point i)<sup>11</sup>. For instance, regardless of the technical merits of economic planning, could it be that the interests of certain powerful groups were being served well by the operation of the economic system as this was designed in the 1930s? And could the collapse of the system, and its takeover by "free

<sup>8</sup> Laibman's (1992) "systemic-comprehensive" stage was never actually implemented in the U.S.S.R. and the other socialist states. See Kafouros (1993).

<sup>9</sup> Notable exceptions were provided by Eugene Zaleski (1980) and John Howard Wilhelm (1985), but even these were in conjunction to a rather different context.

<sup>10</sup> These questions are, of course, of vital importance to the more general issue but, as stated in the opening paragraphs of this paper, they fall outside its scope. For a more thorough debate, see Laibman (1992) and Pena (1993).

<sup>11</sup> See also Kafouros (1996).

markets", be attributed to the fact that a stage had arrived in which those interests could no longer be served efficiently by economic planning of any kind?<sup>12</sup> Could it also be that the dynamics in the development of the Soviet economy, and consequently society, especially during its final decisive stage, made it impossible for them to take the necessary measures even if they wanted to?<sup>13</sup> This last point can of course be inferred, provided one assumes that at some stage of that chain reaction some of the leaders of the U.S.S.R. realised at long last that they had been used.

What seems to have happened is that those at the top had no incentive to change a system of administration which was serving their interests. Why should they? Incentives are not only important at the shop floor of a socialist enterprise; they are needed in the upper echelons as well. As for the lower and middle echelons, neither vision nor motivation characterised them. Furthermore, reforming the system, in whichever way, could unleash powers which virtually every single writer on the issue has emphasised, such as the drive for more accountability for those above, which could hardly be contained. The theory and practise of economic planning were thus kept frozen; they were surpassed by reality, and the system patiently awaited its demise. Finally, when this particular version of the system did not have anything else to give in this respect, it assumed the form which could serve its true nature in the most appropriate way.

In this framework, it should not be considered accidental that the Soviet Union, and its allies, have been a unique case in the history of humanity, where a power of such a magnitude, an empire, collapsed within such an amazingly short amount of time. Moreover, to the casual observer, it seems inexplicable that it was the state itself which initiated this avalanche. Of course, all great empires fall from the inside, but this is not the same as having the members of the Central Committee of the ruling Party declaring it...illegal.

All these, however, have nothing to do with the theory of economic planning and its potential (or lack of it for that matter) per se. A typical misapplication of a theory should not be presented almost universally as a failure of the theory itself. The theoretical potential of planning and the mechanics for its application had always been there. What was missing was the political framework that would give it a fighting chance.

## 5. Conclusion

In conclusion we might say that with respect to economic planning and its evolution, all we have are analyses, as sophisticated or as superficial as they might be, trying to explain why central planning was supposedly doomed to fail. It been accepted *a priori* that economic planning was meant to fail under any circumstances. Therefore, the task was automatically reduced to the description of its failure. Thus, what was to be asked was transformed to a presumption; what was to be proved was taken as given.

The really interesting questions therefore are, or should be, why a long run functioning system (and together with it, economic planning of any form), started faltering to

<sup>12</sup> "The traditional model of socialist planning was by no means doomed to extinction in the late 1980s. Its eventual ruin was the result of conscious choice on the part of the political leadership", Ellman and Kontorovich (1992), p. 16.

<sup>13</sup> "He [Gorbachev] hoped that openness about societal problems would help to modernise the regime, but *glasnost*' developed its own momentum and soon challenged the regime itself", Rasma Karklins (1994), p. 34.

such an extent, and why it collapsed when it did. At best, we have partial analyses trying to prove either that this had not been a social system which could support economic planning, or that economic planning could not solve the problems of these societies. What this paper recommends is that we combine these two ideas in order to illustrate that economic planning, as a means of administering an economy, declined only when it was called upon to deal with (a) problems societies were no longer interested in solving, and (b) problems which a particular form of economic planning was not designed to solve. Unless we do this, unless we understand exactly where and why all these, once non-capitalist, societies failed to deliver what they had promised, it is too early to condemn economic planning once and for all.

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